

REBUTTAL TESTIMONY

OF

JAMES ZOLNIEREK

TELECOMMUNICATIONS DIVISION

ILLINOIS COMMERCE COMMISSION

AMERITECH

DOCKET NOS. 98-0252/0335 (Consol.)

January 11, 2000

1 **Q. Please state your name and position.**

2

3 A. My name is James Zolnierек. I am a senior policy analyst in the
4 Telecommunications Division of the Illinois Commerce Commission. My business
5 address is 527 East Capitol Avenue, Springfield, Illinois 62701.

6

7 **Q. Are you the same James Zolnierек who submitted direct testimony in this**
8 **proceeding?**

9

10 A. Yes.

11

12 **Q. What is the purpose of your rebuttal testimony?**

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14 A. The purpose of my rebuttal testimony is to respond to the comments made in the
15 direct testimony of intervenors and in the rebuttal testimony of Ameritech Illinois in
16 this proceeding. I will respond to comments made by Harry Gildea on behalf of the
17 United States Department of Defense and other Federal Executive Agencies, to
18 comments made by Thomas M. Regan on behalf of Government and Consumer
19 Intervenors (The People of the State of Illinois, Cook County State's Attorney, The

City of Chicago, and the Citizens Utility Board), and to rebuttal comments made by Dr. Robert G. Harris on behalf of Ameritech Illinois.¹

In his direct testimony Mr. Gildea recommends the adoption of Ameritech Illinois' rate rebalancing proposals, and proposes a consumer safeguard mechanism to ensure that consumers directly receive the benefits of reductions in access charges ordered by the Commission in Docket No. 97-0601/0602/0516 (Consol.). I address the rationale Mr. Gildea provides for his recommendation that the Commission adopt Ameritech Illinois' rate rebalancing proposal, and I identify factually inaccurate or unsubstantiated assertions Mr. Gildea makes in support of his recommendation. I also note that Mr. Gildea's proposed consumer safeguard mechanism is inconsistent with the stated position of the Commission on access charge pass-through.

Mr. Regan presents an analysis of Ramsey pricing in his direct testimony. My rebuttal testimony clarifies the conditions under which Ramsey pricing is appropriate as well as conditions under which it is inappropriate. I demonstrate that Mr. Regan's testimony overstates the unfavorable aspects of Ramsey pricing. Nevertheless, I conclude that Ramsey pricing is a pricing mechanism which, if utilized by Ameritech Illinois in the manner it seeks freedom to do here, is

¹ Mr. Gildea is the lone witness for The United States Department of Defense and Other Federal Executive Agencies and his testimony, therefore, is not referenced with an exhibit number. Mr. Regan's testimony is GCI Exhibit 5.0, while Dr. Harris' testimony is Ameritech Illinois Exhibit No. 3.0.

inconsistent with the General Assembly's and the Commission's stated policy goals.

Additionally, I respond to rebuttal comments of Dr. Harris on the topics of competition and pricing in this proceeding.

Rebuttal to the Direct Testimony of Harry Gildea

Q. Should the Commission accept Mr. Gildea's recommendation that it adopt Ameritech Illinois' rate rebalancing proposal?

A. No. The primary support Mr. Gildea provides for his recommendation that the Commission adopt Ameritech Illinois' rate rebalancing proposal is that prices should be aligned with costs and that Ameritech Illinois' rate rebalancing proposal will better align its prices with its costs.² Mr. Gildea states that "the moderate increase of \$2.00 monthly proposed by the company is a step in moving the rates to the level of costs..."³ However, there is no support for Mr. Gildea's assertion.

² In his testimony Mr. Gildea states "it is vital that rates reflect costs as nearly as possible in a mixed monopoly—competitive environment," and "...bringing prices to cost levels in a mixed monopoly-competitive environment—as exists in telecommunications services in Illinois and most other parts of the nation—is the logical step to transition from the mixed monopoly-competitive environment to more competition." Gildea direct testimony at 7.

³ Id. at 9.

58 In his direct testimony in this proceeding Ameritech witness Paul Van Lieshout has
59 testified that current residential access line prices exceed LRSIC costs in Access
60 Area A, but fall short of LRSIC costs in Access Areas B and C.⁴ Mr. Van Lieshout
61 provides figures which indicate that if Ameritech's rate rebalancing proposal is
62 implemented, residential access line prices will exceed LRSIC costs in all Access
63 Areas.⁵ Both Staff and GCI have offered testimony disputing Mr. Van Lieshout's
64 figures.⁶ However, based upon Mr. Van Lieshout's figures, prices for residential
65 access lines will move closer to LRSIC costs in Access areas B and C, but will
66 move further above LRSIC costs in Access Area A. Therefore, it is unclear whether
67 such a change will better align residential access line prices and costs. Further, as I
68 stated in my direct testimony Ameritech Illinois' rate rebalancing proposal also
69 appears to increase differences between rates and prices for other services, such
70 as non-recurring residence order charges.⁷

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72 The evidence submitted by Ameritech in its direct testimony in this proceeding does
73 not substantiate Mr. Gildea's assertion that Ameritech Illinois' rate rebalancing
74 proposal would align rates closer to costs. As this assertion forms the foundation
75 for Mr. Gildea's recommendation to accept Ameritech's rebalancing proposal, I
76 recommend the Commission reject Mr. Gildea's recommendation that it adopt the
77 Ameritech Illinois' proposal.

⁴ Ameritech Illinois Exhibit No. 9.0, Schedule 2.

⁵ Ameritech Illinois Exhibit No. 9.0, Schedule 2.

⁶ See Staff Exhibit No. 14.0 (Hanson Direct) and GCI Exhibit No. 8.0 (Dunkel Direct).

⁷ Staff Exhibit No. 3.0.

78

79 **Q. If the Commission accepts Ameritech Illinois' rate rebalancing proposal,**
80 **should it adopt the consumer safeguard mechanism proposed by Mr.**
81 **Gildea?**

82

83 **A.** No. The mechanism proposed by Mr. Gildea is inconsistent with the Commission's
84 stated position on access charge pass-through.

85

86 In direct testimony in this proceeding, Ameritech argues that increased revenue
87 collected as a result of its proposed \$2 increase in residential access line charges
88 will be, in part, offset by reductions in switched access charges ordered by the
89 Commission in Docket No. 97-0601/0602/0516 (Consol.). Mr. Gildea proposes
90 that in order to qualify for such reductions, long distance carriers must demonstrate
91 to the Commission that they are passing the reductions through to consumers. In
92 the event that a long distance carrier cannot prove that it is passing through such
93 reductions, its reductions will be rescinded and the resulting reductions passed
94 through by Ameritech Illinois directly to end-users in the form of reduced residential
95 and business access line charges.

96

97 To the extent that the long distance market is a competitive market, such changes
98 will be passed through to consumers through the normal operation of the market,

rendering regulatory involvement unnecessary.⁸ In Docket No. 97-0601/0602/0516 (Consol.) the Commission expressly rejected the notion that long distance carriers should be required to demonstrate pass through in reports to the Commission.⁹ The Commission further noted that it "...expects competitive market forces to assure that these reductions will continue to flow through to consumers."¹⁰ Therefore, in the event the Commission adopts Ameritech Illinois' rate rebalancing plan, I recommend the Commission, consistent with its earlier ruling, reject Mr. Gildea's proposed consumer protection mechanism.

Rebuttal to the Direct Testimony of Mr. Thomas H. Regan

Q. In GCI Exhibit No. 5.0, Mr. Regan provides an analysis of Ramsey pricing. What is your assessment of Mr. Regan's analysis?

A. While I agree with Mr. Regan that Ramsey pricing is an inappropriate pricing mechanism for Ameritech Illinois to utilize, I believe, as does Dr. Harris, that Mr. Regan overstates the problems with Ramsey pricing.¹¹

⁸ In competitive markets it is typical for a change in the cost of an input to affect the amount of goods sold to consumers. Because other input prices vary with production levels the ultimate price charged for output does not typically equal the change in the cost of the input which initiated the changes. Therefore, even if the long distance market is perfectly competitive, long distance price changes are unlikely to exactly equal switched access charge reductions.

⁹ In the Commission Order in Docket 97-0601/0602/0516 (Consol.), the Commission states, "...the Commission finds that the IXC's, GTE, and Ameritech are not required to file semi-annual reports with the Commission staff." Commission Order, Docket 97-0601/0602/0516 (Consol.) at 54.

¹⁰ Id.

¹¹ Dr. Harris refers to Mr. Regan's Ramsey pricing example as a "cartoon" version of Ramsey pricing. Ameritech Illinois Exhibit No. 42 at 35.

116

117 As stated in my previous testimony, Ramsey pricing can be employed to recover
118 costs that would not be recovered through marginal cost pricing. When Ramsey
119 pricing is employed, prices are increased above marginal costs in inverse
120 proportion to consumer responsiveness to price. The largest markups of price over
121 marginal cost are applied to those consumers who respond least to price changes.
122 As an example of the potential inequities of Ramsey pricing Mr. Regan suggests
123 that "...if someone who was near death from lack of water stumbled in out of the
124 desert into a convenience store that was the only possible source of water, the
125 proper Ramsey pricing for a bottle of water (which normally retailed for \$1.00) would
126 be very high (i.e. \$100,000)."¹² This example clearly exaggerates the shortcomings
127 of the Ramsey pricing mechanism. Furthermore, I concur with Dr. Harris who notes
128 that such examples bear little relation to reality.¹³

129

130 In the absence of competitive concerns, the Ramsey pricing rule will satisfy
131 Commission objectives only if the Commission concerns itself exclusively with
132 efficiency, not equity. That is, the Ramsey rule will meet Commission objectives if
133 the Commission treats one-dollar of benefit to one consumer equal to one-dollar of
134 benefit to any other customer, and is therefore unconcerned about the distribution of
135 benefits among customers or customer classes.

¹² GCI Exhibit No. 5.0 at 10.

¹³ Dr. Harris comments "Anyone would be hard-pressed to come up with a scenario where that \$100,000 glass of water or hundred-dollar cab ride in any way maximizes social welfare subject to the revenue to be raised, as a Ramsey solution recommends." Ameritech Illinois Exhibit No. 4.2 at 35.

In Illinois telecommunications markets consumers are not all alike, and the Commission has long recognized this fact and concerned itself with the distribution of costs and benefits caused by its actions with respect to the pricing of services. Similarly the General Assembly has articulated policy goals which include affordability and equity.¹⁴ Therefore, a Ramsey pricing mechanism based on efficiency alone does not meet all of the General Assembly's or Commission's stated policy objectives. As I have made clear in my direct testimony, and as I indicate below, I do not believe that Ramsey pricing is an appropriate pricing mechanism for Ameritech Illinois to utilize in this context. On this point I agree with Mr. Regan. However, I do not believe such pricing principles should be treated in such a cavalier fashion. A "modified Ramsey Rule" that accounts for equity and competitive considerations of the Commission may be an appropriate pricing mechanism for the Commission to consider in setting rate levels.

Rebuttal to the Direct Testimony of Dr. Robert G. Harris

Q. In your direct testimony you were critical of Dr. Harris' competitive analysis noting that the arguments he used to demonstrate that wireless and other services substituted for Ameritech Illinois services could be applied to

¹⁴ See, e.g., 220 ILCS 5/13-102, 13-103.

156 **postal service.¹⁵ In his rebuttal testimony, Dr. Harris asserted that this**
157 **analogy was inappropriate, because postal service is clearly not a**
158 **meaningful substitute for Ameritech Illinois telephone services.¹⁶ Please**
159 **evaluate Dr. Harris' assertion.**

160
161 A. Dr. Harris' criticism emphasizes the point of the postal service analogy. I indicated
162 in my direct testimony that Dr. Harris presumably would not argue that the U.S.
163 postal service is a competitive threat to incumbent telephone providers. However,
164 postal service meets the criteria he employs to argue that other services, such as
165 wireless service and e-mail services, are meaningful substitutes. For example, in
166 his direct testimony Dr. Harris asserts "...many of the Internet activities of consumer
167 and businesses, such as e-mail, information gathering, and product ordering, are
168 substituting for voice telephone calls in which Ameritech Illinois would have received
169 either usage revenue or access charges" and "today faxes can be sent over the
170 Internet: these transmissions are direct substitutes for the analog alternative and are
171 therefore competing with ILEC services." ¹⁷ Dr. Harris provides no evidence of the
172 extent to which consumers are substituting these service offerings for traditional
173 fixed wireline voice service offerings. Accordingly, it is not clear whether such
174 substitution is taking place to a significant degree, or whether it is, as Dr. Harris

¹⁵ Staff Exhibit No. 3.0 at 7 and 8.

¹⁶ Dr. Harris notes "Even the most casual and inexperienced observer would recognize that wireless calls and services are much closer substitutes to wireline calls and services than is a postal letter. In contrast, the substitutability between a phone call and a letter is too minute to be considered." Ameritech Illinois Exhibit No. 4.2 at 25.

¹⁷ Ameritech Illinois Exhibit No. 4.0 at 30 and 36, respectively.

describes substitution of postal service, "too minute to be considered"?¹⁸ Dr. Harris' testimony does not support the assertion that it is significant.

Ameritech's rate rebalancing proposal, if implemented, would increase Ameritech's pricing flexibility. Dr. Harris argues in both his direct and rebuttal testimony that flexibility is necessary to respond to increased competitive pressure.¹⁹ In my direct testimony I observed that Ameritech has the burden of proof to demonstrate increased competitive pressure in this proceeding, and that Ameritech had not met that burden. Dr. Harris' rebuttal comments imply that Ameritech need not meet such burdens, but rather that Ameritech need simply identify, without support, those products that are meaningful substitutes for traditional phone service. The Commission should reject Dr. Harris' competitive analysis until such time as Ameritech is able to provide evidence to support his assertions regarding increased competitive pressures to which Ameritech is allegedly subject.

Q. Dr. Harris dismisses market power tests as irrelevant to the alternative regulation review process, asserting that "after all, Alt-Reg is applied to non-competitive services. The benefits of Alt-Reg are not predicated on some

¹⁸ Ameritech Illinois Exhibit No. 4.2 at 25.

¹⁹ For example Dr. Harris asserts "The alternative regulation plan must allow the company to face this changing and uncertain environment," Ameritech Illinois Exhibit No. 4.0 at 30 and further contends "...properly implemented, Alt-Reg's flexibility and adaptability can permit the incumbent to adjust to changes caused by competition in ways that benefit the consumer and promote efficient competition." Ameritech Illinois Exhibit No. 4.2 at 36.

level, or absence, of market power, nor is the design of an efficient Alt-Reg plan." ²⁰ Please comment on Dr. Harris' assertion.

A. When initially approving alternative regulation the Commission stated that it "... believes that competition is likely to increase in the future and the regulatory policies of this State should be directed toward a successful transition to a more competitive environment." ²¹ In this proceeding, Ameritech seeks to modify the alternative regulation plan, as I indicated above, to meet what it asserts is increased competitive pressure. Dr. Harris has presented testimony regarding technology and competition and appended to his testimony three schedules which purport to evaluate the state of competition in Ameritech Illinois' service territory. ²² Ameritech's reliance on this analysis is illustrated most clearly by Ameritech Witness O'Brien who states "...Ameritech Illinois needs more pricing flexibility than was contained in the original Plan because competition has developed strongly during the Plan and is growing vigorously as described in Dr. Harris' direct and rebuttal testimony."²³ Clearly Dr. Harris and Ameritech Illinois recognize that competitive concerns are relevant to the alternative regulation review process.

²⁰ Ameritech Illinois Exhibit No. 4.2 at 20.

²¹ Order, Docket 92-0448/93-0239 (Consol.), at 19.

²² Ameritech Illinois Exhibit No. 4.0 beginning at 17 et seq.; see also Ameritech Illinois Exhibit No. 4.0, Schedules 2,3, and 4.

²³ Ameritech Illinois Exhibit No. 3.1 at 10.

In his own rebuttal testimony Dr. Harris states that "understanding how the marketplace is evolving provides some perspective on how to improve the ARP."²⁴ I concur with the Dr. Harris that understanding how the marketplace is evolving provides perspective on how to improve the alternative regulation plan. However, absent an analysis of market power, Dr. Harris' competitive analysis does not adequately portray the state of competition in Ameritech's Illinois local exchange and exchange access markets.

Q. In your direct testimony you made note of similarities between Ameritech's competitive analysis in this proceeding and in the original alternative regulation proceeding.²⁵ Dr. Harris notes that the overestimates of competition made by Ameritech illustrate that forecasts are often imprecise and that "...if anything, our perceptions about the future are likely to underestimate the pace of change and the development of competition, whether that is cable, voice and data service, wireless voice and data services, or wireline voice and data services."²⁶ Please evaluate Dr. Harris' statement.

A. Forecasts of future competitive development will, perhaps inevitably, be imprecise. However, it definitely does not follow from this fact that Ameritech's past

²⁴ Ameritech Illinois Exhibit No. 4.2 at 18.

²⁵ Alternative regulation was adopted in Docket 92-0448/93-0239 (Consol.).

²⁶ Ameritech Illinois Exhibit No. 4.2 at 30.

overestimates of competitive pressure should cause the Commission to believe that it is, as Dr. Harris asserts, "...likely to *underestimate* the pace of change and the development of competition."²⁷ If anything, Ameritech's past overestimates of competitive pressure should cause the Commission to view with skepticism the company's plan to rebalance rates in response to its own competitive forecasts. Ameritech has overestimated the competitive pressures on it in the past, and there is no reason to assume that it is not doing so here.

Q. In his rebuttal testimony, Dr. Harris indicates that efficiency should dictate the pricing policies of the Commission and that there is only one efficient pricing solution available to the Commission.²⁸ Please evaluate Dr. Harris' assertion.

A. Economic theory simply does not support Dr. Harris' assertion. Policy makers, including Federal and State Governments and regulatory bodies such as this Commission are responsible for defining social objectives. In fact, Section 1-102 of The Public Utilities Act defines the goals and objectives of regulation to include: (a) Efficiency, (b) Environmental Quality, (c) Reliability, and (d) Equity, not efficiency

²⁷ Ameritech Illinois Exhibit No. 4.2 at 30 (emphasis added).

²⁸ Dr. Harris states "there is only one efficient solution available to the Commission, and that is where the marginal rate of substitution in consumption equals the marginal rate of transformation with the current social distribution of income and wealth. This is interpreted in policy settings as the price-equals-marginal/incremental cost rule. In addition, as a result of economies of scope in telecommunications services, it is widely recognized that prices must exceed incremental cost in order to pay for the shared and common costs of the firm. There are therefore specific pricing rules that provide for this solvency condition with minimal harm to total social well-being. " Ameritech Illinois Exhibit No. 4.2 at 33-34.

249 alone.²⁹ Economic theory is a tool that assists policy makers in evaluating and
250 expanding the set of possible outcomes through analyzing, among other things, the
251 efficiency of feasible alternatives. To imply, as Dr. Harris does, that there is only
252 one feasible and efficient solution available to the Commission is to imply that
253 neither the Commission nor any other policy makers, such as the General
254 Assembly, are able to define social objectives. Efficiency should be one guiding
255 principle in setting rates, and to that extent I agree with Dr. Harris. However, I do
256 not concur that "the efficient solution before the Commission is unique."³⁰

257
258 Dr. Harris states that there are "...specific pricing rules that provide for this solvency
259 condition with minimal harm to total social well-being," and further indicates that
260 "Ramsey prices are those that produce the greatest social well-being from a system
261 of prices that raises a specified amount of revenue over and above the
262 marginal/incremental costs of the various products or services."³¹ However, the
263 Commission has rejected such reasoning in the past. The Commission, in
264 approving the alternative regulation plan, could not have been more clear on its view
265 of Ramsey prices when it stated that it "...believes that unlimited pricing flexibility of
266 services provided to customers with little or no alternative choices is contrary to the
267 goals of the General Assembly in legislating the opportunity for an alternative
268 regulatory plan." Dr. Harris' advocates Ramsey prices which may be the most
269 efficient method to achieve goals inconsistent with those set forth by the

²⁹ 220 ILCS 5/1-102.

³⁰ Ameritech Illinois Exhibit No. 4.2 at 34.

Commission. By arguing that efficiency should prevail completely over equity, Dr. Harris implies that the Commission should abandon its, and the General Assembly's, policy objectives because, by doing so, it may be able to meet alternative objectives very efficiently. I strongly disagree with this premise and do not believe that it has any basis in sound economic theory.

In addition Dr. Harris' arguments attempt to divert attention from flaws in Ameritech's case for rate rebalancing. As justification for raising residential network access rates by a uniform \$2.00, Ameritech witness Van Lieshout states "since very few customers understand the concept of 'access area,' the uniformity of the \$2.00 increase will facilitate communications and understanding."³² In addition, in justifying non cost based pricing Dr. Harris states in his supplemental direct testimony "this part of the pricing proposal represents a business judgement by Ameritech Illinois that the Company can take the voluntary assumption of risk that these costs ultimately can be recouped."³³ These changes do not conform to Dr. Harris' unique solution. That is, Ameritech's own rate rebalancing proposal does not adhere to the basic tenets Dr. Harris advocates.

Q. Dr. Harris asserts that you have not interpreted the concept of efficiency correctly.³⁴ Please respond to Dr. Harris' assertion.

³¹ Ameritech Illinois Exhibit No. 4.2 at 34 and 35.

³² Ameritech Illinois Exhibit No. 9.0 at 5.

³³ Ameritech Illinois Exhibit No. 4.1 at 27.

³⁴ Ameritech Illinois Exhibit No. 4.2 at 32.

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291 A. Dr. Harris defines economic inefficiency in the following manner, "...in economics,
292 inefficiency represents an opportunity to improve the lot of some people without
293 harming anyone else." ³⁵ In his rebuttal testimony Dr. Harris states, "Dr. Zolnierrek
294 defines efficiency as requiring that beneficiaries of a policy change actually
295 redistribute some of their gains so as to compensate the losers. This is not a
296 correct interpretation of efficiency as it is applied in policy settings for several
297 reasons." ³⁶ He then defines economic efficiency in an alternative manner, stating
298 "...in almost all policy considerations, economists use the so-called Kaldor-Hicks
299 concept of Pareto superiority: winners could compensate losers, but need not do
300 so." ³⁷

301
302 If Dr. Harris intended to use the "Kaldor-Hicks" concept of Pareto Superiority, or as
303 it is more commonly referred to, Potential Pareto Superiority, as his efficiency
304 criteria he should have stated this explicitly. ³⁸ The definition employed in Dr. Harris'
305 direct testimony implies that Ameritech's rate rebalancing plan improves welfare for
306 each individual, not that some individuals benefit and some are made worse off, as
307 is the case. The difference is dramatic: Ameritech's rate rebalancing plan will
308 undeniably harm some consumers. Therefore, even if the plan has the potential to
309 make all consumers better off, it does not in fact do so; rather it will harm a large

³⁵ Ameritech Illinois Exhibit No. 4.1 at 4 and 5 (emphasis added).

³⁶ Ameritech Illinois Exhibit No. 4.2 at 32.

³⁷ Ameritech Illinois Exhibit No. 4.2 at 33.

number. Dr. Harris perpetuates the illusion of universal benefit in this program declaring "the Ameritech Illinois rate rebalancing proposal is effectively neutral in its impact and so does not burden consumers, although there will be those whose bills increase somewhat just as there will be those whose bills decrease somewhat." ³⁹ Presumably some of those customers whose bills increased would face some burden making such a statement self-contradictory.

In the interest of clarity and full disclosure Dr. Harris should be explicit in noting that the "unique" efficient solution he advocates benefits some but harms others. Dr. Harris should also note that when he refers to consumers he is referring to consumers collectively and is not drawing any conclusions regarding individual welfare. Finally, he should also note that the Ameritech rebalancing proposal does not meet and may not be closer than the *status quo* to his theoretic ideal.

In my direct testimony in this case, I suggested that the rate-rebalancing plan proposed by Ameritech would improve the welfare of some customers, while the welfare of other customers would decrease and that, therefore, efficiency would not be a definitive evaluation criteria in such situations. ⁴⁰ I emphasize that my statement implies that the plan will not result in an unambiguous improvement in which each consumer's welfare improves or at least does not diminish. Therefore,

³⁸ Dr.. Harris refers to Potential Pareto Superiority as the "so-called Kaldor-Hicks concept of Pareto superiority." Ameritech Illinois Exhibit No. 4.2 at 33.

³⁹ Ameritech Illinois Exhibit No. 4.2 at 37 (emphasis added).

⁴⁰ Staff Exhibit No. 3.0 at 17.

the Commission must consider how burdens are being shifted between affected parties. I further note that in my direct testimony I advocated a solution of cost based rates. This recommendation, made conditional on Ameritech costs claims, and was suggested as a change consistent with both the notion of Potential Pareto Superiority, which I fully explained, and what I perceived to be the policy objectives of the Commission.⁴¹ Therefore, I clarify that I do not disagree with using Potential Pareto Superiority as an evaluation criterion, I simply disagree that it should or can be the only criterion in this instance. Furthermore, as I indicated in my direct testimony, neither Dr. Harris' nor any other Ameritech witness has conclusively demonstrated that the Ameritech rate rebalancing proposal will align rates better with costs and result in a Potential Pareto Superior outcome.⁴² As indicated above, Dr. Harris' arguments merely direct the debate toward the merits of his theories and away from the fact that Ameritech has presented no convincing evidence to suggest that its own proposal coincides with these theories.

Q. Does this conclude your testimony?

A. Yes.

⁴¹ Regarding my own proposed change, I noted "...although the resulting outcome may benefit some at the expense of others, it may be a result that better meets both efficiency and equity criteria consistent with the goals of the Commission" (emphasis added). Staff Exhibit No. 3.0 at 25.

⁴² Staff Exhibit No. 3.0 at 18 and 19.